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Congress of the United States
House of Representatives
107th Congress
Committee on Small Business
2361 Rayburn House Office Building
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Honorable James Nussle
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Honorable John M. Spratt, Jr.
Ranking Democratic Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Reference: Budget Views and Estimates

Dear Chairman Nussle and Ranking Democratic Member Spratt:

As the Ranking Democratic Member on the Committee on Small Business, I am submitting separate views and estimates based on the limited Small Business Administration Fiscal Year 2003 budget submission. Although there were some limited areas in which Committee Democrats concurred with the Chairman, there were numerous other areas in which we greatly differed; for that reason I have prepared the following views and estimates.

Last year, the Bush Administration submitted the worst budget for SBA I have ever seen in my 9 years of service on the committee and four years as Ranking Democratic Member. The proposal cut the SBA budget almost in half, threatening many programs so vital to supporting our nation's small businesses. In comparison, this year's budget is a major improvement. But the proposed budget which is an increase of $258 million over last year's still is only 2% more than what Congress eventually appropriated for the agency. A closer look reveals large cuts in vital programs that shortchange this nation's small businesses by reducing access to capital, bottlenecking federal contracts, and ignoring enterprise in low-income communities.

ACCESS TO CAPITAL

7(a) Loan Program

Gone from the FY2003 budget are such proposals that would have assessed fees on the 7(a) program. In the FY 2002 budget request the administration had proposed to remove the 7 (a) program from the annual appropriations process and operate it solely on a fee basis. The result of that policy change would have been an increase in the cost of the program to both lenders and borrowers, exponentially removing the 7(a) program as a viable option to assist small businesses, across the country, access to capital. This was rejected on a bipartisan basis with congressional leaders reversing the Administration's move towards greater fees and actually cutting them.

While the administration, with this year's budget submission, has recognized that operating the 7(a) program solely on fees is not a workable solution they continue to play budget games with the program by failing to accurately calculate the subsidy rate for the program. On the surface, the 7(a) program cuts might seem invisible— The request of $86 million is a 9% hike from last year's funding level of $78 million. But coupled with the Office of Management and Budget's (OMB) faulty subsidy rate, which has ballooned to 1.76%, that $86 million will only equate to $4.85 billion in loan authority, a $7 billion shortfall from projected demand.

The driving force behind this failing, is the relationship between long-overdue 7(a) fee cuts passed in late 2001 and the OMB's calculation of the 7(a) subsidy rate, or the government's projected cost of administering the program per $100 lent.

For each 7(a) loan made, the lender and borrower pay fees that are added with credit subsidy appropriations to cover the anticipated cost of the program. But since 1995, these fees have done far more than that. In fact, 7(a) borrowers and lenders have paid at least $1.5 BILLION in excessive fees since 1995. The OMB has, in effect, used the 7(a) loan program as a vehicle to levy an unauthorized tax on small business borrowers and lenders.

At the end of the last Congressional session, House Democrats attempted to reduce program costs by amending S.1196 to reduce 7(a) borrower and lender fees to more appropriate levels As expected, the OMB's response has proven that it would rather gut the number one source of long-term financing to America's small businesses than budge on the subsidy rate issue. And rather than requesting additional 7(a) program appropriations adequate to meet financing needs of small businesses until the OMB gets it's act together, the Administration has chosen to look the other way.

In an attempt to make up for the short fall the administration has proposed two solutions, both of which are unworkable. The first entails making more 7 (a) loans, primarily real estate, through the 504 program. This is completely unworkable as a short term solution. The 7(a) and 504 are two entirely different programs. The 504 program is for economic development and can be used only for the purchase of equipment or a place of employment. The 7(a) has broader goals and can be used for business start-ups, expansions and other expenses. A 504 borrower must demonstrate job creation, there is no refinancing and the rates are variable. The 7(a) program has different financing provisions and the loan rate is fixed. It is clear these two programs are *not* interchangeable. It appears that this proposal is less about fixing a short term funding deficiency and more to blur the lines between these two programs in hopes of merging them together. This would mean the inevitable termination of one or the other. The solution here is not to shift 7(a) loans to the 504 program. The real solution is to fix the subsidy rate, which has overcharged both lenders and borrowers $1 billion over the last decade.

The other solution is to utilize state run Capital Access Program (CAP). These programs are targeted to encourage small business lending. Under the program banks and borrowers pay an up front insurance premium which goes into a reserve fund . The state matches the combined bank and borrower contribution with a deposit into the same fund. This in theory would allow a lender to make slightly higher risk loans than conventional under writing . This solution raises several concerns, not the least of which is what happens when this backstop is no longer in use or discontinued. With states under budgetary constraints many are discontinuing or suspending the use of CAP programs. The most recent example is in the state of Michigan which announced that it would close their program down. It is unlike that such a tool which is employed in less than half the states and with many discontinuing it's use could fill the lending gap.

The result, if the President's budget were adopted as is, while borrowers and lenders would pay less per loan in FY '03, they would still be severely overcharged to use the 7(a) program, and their fees would only pay for about 40% as many loans. This will result in billions of dollars in lending opportunities lost for this nations entrepreneurs. Committee Democrats strongly oppose this proposal and would encourage the Budget Committee to join us in demanding that OMB resubmit a recalculated subsidy rate that more accurately reflect the true levels of the program.

504 Loans

The Administration's program request for the 504 loan program although this level is still below the authorized level for the program, the 504 program participants have indicated that the Administration's budget will be adequate to serve the program's needs for FY 2003.

As is the case with the 7(a) program the subsidy rate estimates continue to be a major obstacle that is limiting the growth of the program. This years budget reverses a recent trend that has seen slight reductions in fees charged to borrowers and lenders in the 504 program, with an increase that clearly does not add up. OMB continues to incorrectly calculate the subsidy rate estimates for this program reporting a rate that is overly conservative and consequently keeps fees to small business borrowers artificially high.

Concerns still persist by over the effect that the current economic down turn will have on the ability of the 504 program to sustain its levels through fees that are generated by participants. Should this happen, it would result in a funding shortfall for the operation of the 504 program. The remedies for such a problem would be: (1) to raise the program fees to make up for the shortfall; or (2) to appropriate funds to make up for the shortfall. Increasing program fees that are already artificially too high makes no policy sense at all. In addition, and more importantly for the stability of the program, if the 504 program experiences a shortfall in fees generated during an economic downturn because fewer businesses are using the program, rasing the fees will result in even fewer businesses using the program. Therefore, an economic downturn could easily send the 504 program spiraling into a deficit situation and, in an attempt to generate revenue, turn away the very companies that need assistance during a recession.

In order to avoid this situation, the proposal to provided a nominal appropriations for the program that would serve as a "safety net" or a "reserve" should the program begin to operate at a deficit, such a "rainy day" fund for the 504 program through a one-time direct appropriation would ensure that the program remains a viable economic growth tool in times of economic down turns.

Small Business Investment Company Program

The FY 2003 budget represents the first submission since the Administration's proposal to operate the Small Business Investment Company Program on a fee only basis was adopted. The SBIC program now joins the 504 program as operating solely off fees with no annual appropriations. While making this policy change allowed the program volume to grow, the imposition of fees does hold the potential to increase the cost of the program to small business, impacting start-up and businesses in less viable areas to a much greater degree, many who are minority and operate in low income areas.

In addition, there is concern about the impact the increased fees will have on the low-income minority- and women-owned small businesses that participate in the SBIC-LMI program. The President's budget also proposes to eliminate the New Markets Venture Capital Company program, citing what they see as a duplication of other SBA low-income lending programs, like the SBIC-LMI program. At the same time, the President's budget will make it more difficult for low-income small businesses to use the SBIC-LMI program because of increased fees. By zeroing out the New Markets program, and increasing the fees for the SBIC program, the President's budget severely limits access to much-needed venture capital for minority- and women-owned small businesses, and businesses operating in low-income areas. These are the very businesses that need venture capital assistance the most.

Microloan Program

The President's Budget requests a decrease in funding for the Microloan program for FY 2002. Under the President's request, the program level would be cut from $25 million to $20 million, and the subsidy budget authority would shrink from $2.5 million to $1.5 million. We cannot support this cut.

This decrease runs contrary to what the Committee intended when we recently passed bi-partisan legislation increasing the authorization levels for micro-lenders and increasing the number of microloan intermediaries. These changes were made through the SBA Reauthorization Act of 2000 (P.L.106-). While we share the Majority's concerns that the Administration's request for decreased funding will not allow the anticipated expansion of the program, as expressed in P.L.106- ,we are also concerned that a cut of this proportion will cause the program to fall short of meeting the needs of the small business community.

Not only would the President's proposed $5 million cut leave the Microloan Direct Loan program nearly $60 million under the authorized level, with an average sized loan for the program at $10,000, this cut means about 500 fewer loans will be made through the Microloan program next year. In a program that only makes about 2,000 loans a year, the Bush cut represents a 25 percent cut in the Microloan program. Simply put, this means that 25 percent fewer small businesses will have access to capital through the Microloan program.

Microloan Technical Assistance

The President's request of $17 million is $3 million be low last year's request and would leave the technical assistance component $40 million under the authorized funding level. This request does not keep pace with inflation and falls well short of what is needed to adequately serve the small businesses who seek assistance under this important program.

New Markets Venture Capital Companies

The Administration has continued its reckless proposal to eliminate funding for the New Markets Venture Capital Company (NMVCC) program. The Small Business Committee has always strongly supported programs with the goal of improving access to capital in low- and moderate-income areas. The NMVCC program was a bipartisan initiative of the Small Business Committee designed to increase LMI investments. As part of the landmark Community Renewal / New Markets legislation it is disappointing that the Bush Administration has choosen not to honor this bi-partisan agreement.

Many studies have shown that low-income entrepreneurs that receive technical assistance are much more likely to survive past the first three years. By providing no technical assistance funding for the program the Administration is setting the NMVCC program up to fail by not giving the program the resources to provide much-needed technical assistance to small businesses in LMI areas.

PRIME

It is unfortunate that after a full year in office the Administration still fails to understand many of the entrepreneur tools at it disposal. This is demonstrated by it continued mischaracterization of the PRIME program as duplicative of other entrepreneurial assistance programs. This program targets a very specific sector of the economy the micro-entrepreneurs. In order to succeed in our complex economy these individuals need specialize training and technical assistance in areas such as financial management, book-keeping and marketing. In fact a 1999 study by the Aspen Institute found that nearly 90% of micro-entrepreneurs do not seek loan opportunities but seek training and technical assistance and access to market services. PRIME provides grants to micro-enterprise development organizations to offer training and technical assistance regardless of whether they seek capital. Study after study has shown that individuals who receive this type of assistance have had much high favorable outcomes in household income and assets business income and reduced reliance on federal benefits.

Disaster Assistance

SBA should be commended for its recent response to events of September 11th to help small businesses located in the New York city area and those across the country effected by the terrorist attacks by expanding the economic injury loan portion the Disaster loan program to cover those effected regardless of location that can should the were adversely effected. However, given the events of the past year coupled with the EDIL program expansion the administration requested of $111.14 million which is down from last year's is vastly below what is required to meet the unique needs of this nation's small businesses. Failure to provide this assistance will result in depriving thousand of businesses across this country from accessing the capital they need to keep their business afloat. More concerning is that while the Administrator and the employees of SBA have done an admirable job, the disaster loan program was created to respond to natural disaster not an act of war. The rejection rates for loans in New York is more than 50% – much higher than the average rate for the disaster loan program. The events of 9/11 have created several dynamics unique to this situation. In the past demographics of disaster loans are made up of 80% home loans and 20% business in this instance that is reversed with 20% of applications being home loans and 80% being business. A critical component of providing the disaster loan program is the ability to repay while disaster loans are not required to provide collateral they must demonstrate an ability to repay which is calculated based on a model that includes but is not limited to historical trends for recover from similar events. Because of the uniqueness of this situation SBA is unable to accurately project a true baseline for recoveries. This has led to an overly conservative estimate that has resulted in the exclusion of many worthy businesses. Given the uncertainty that exists in the economic recovery, it is questionable and does not make good economic sense for a business to acquire more debt. It is the convergence of these issues to prompt Democrats to introduce HR 3011 that provided sustainability grants to assist small businesses. This was included last fall in HR unfortunately this legislation is being held hostage by the Republican leadership which refused to allow this legislation to come to the floor. This is unfortunate that as House fails to act thousands of businesses across this country stand on the brink of failure. Congress should act on this legislation that is so critical to this nation's small business.

Office of International Trade

The Minority is concerned with the Administration's $1.73 million request for the Agency's Office of International Trade (OIT). While we have not been able to obtain previous years' funding levels for OIT, we expect that the Agency has funded this office at the same level over the last several years. As more small businesses begin to export their goods and services it becomes increasingly important for there to be a strong, centralized advocate to ensure their access to trade assistance, counseling and promotion services.

Furthermore, the Minority is concerned with the Administration's $3.1 million request for the Agency's participation in the 19 regional U.S. Export Assistance Centers. While this is level with last year's funding, the Agency reports that it will only be able to support 17 FTEs with this funding as opposed to the 27 FTEs that the Agency supported in FY '00. The Minority is concerned that the other USEAC partners (Ex-Im Bank and the Department of Commerce) are similarly neglecting the USEACs and not providing adequate funding for these one-stop assistance centers to serve small business exporters.

GOVERNMENT CONTRACTING AND BUSINESS DEVELOPMENT

HUBZones

The Administration requests level funding for this program at $2 million. The Minority believes that this funding limits the potential for the HUBZone Program to achieve its mission of allowing federal contract preferences for firms located in areas of high unemployment and low income throughout the country. Despite the fact that there are more than 7,900 HUBZone locations throughout the country, in addition to 340 zones adjoining and within Federally-recognized Indian Reservations, there are less than 4,700 HUBZone-approved companies. The Minority believes that the HUBZone Program should be funded at $5 million, the requested funding for FY 2001, rather than the $2,000 requested by the Administration for FY 2003. The consistent under-funding of programs frequently leads to a lack of appropriate management controls and increases the possibility for mismanagement, fraud and abuse. The lack of management controls is evident in the fact that the decline rate for HUBZone Program applicants for FY 2002 is less than 1 percent. For FY 2001, the decline rate for HUBZone Program applicants was less than 3 percent. The SBA obviously does not have the necessary staffing place to ensure that an application is adequately reviewed, nor to ensure that Program participants provide accurate information in their on-line applications.

8(a)

The SBA's 8(a) Program, named after Section 8(a) of the Small Business Act, is the primary program through which minority-owned businesses enter the Federal marketplace. On January 28th, the SBA proposed regulations that establish "parity" between the 8(a) Program and the HUBZone Program. The Minority is strongly opposed to the SBA's proposed regulations. In addition to "parity," these regulations expand the HUBZone Program. One example of this, is the SBA's proposal to allow HUBZone companies to count part-time, temporary, and leased employees against its requirement that 35 percent of HUBZone company employees reside in HUBZones. By loosening the requirements of the HUBZone Program, the SBA has moved the Program past its Congressional intent.

The HUBZone Program was designed to benefit low income individuals and welfare recipients by the injection of federal contracting dollars in low income communities. The 8(a) Program, on the other hand, promotes individual entrepreneurship by minority business owners through the awarding of federal contracts to these businesses. By having two different programs with the same solution - federal contracts - the actual consequence of the HUBZone Program has been the creation of a parallel program to the 8(a) Program.

In 1997, the House approved the HUBZone Program only on the condition that it did not negatively impact the 8(a) Program. Based upon this agreement, the SBA, under the previous Administration, wrote implementing regulations giving preferences as follows: 1) 8(a) firms located in HUBZones, 2) 8(a) firms not located in HUBZones, and 3) HUBZone-approved firms.
The SBA now believes that Federal agency contracting officers should choose whether to use the 8(a) Program or the HUBZone Program based upon the agency's goals. It should be noted that there is a statutory HUBZone goal of 2.5 percent for FY 2002, which increases to 3 percent in FY 2003 and every year thereafter. There is no statutory goal for the 8(a) Program.

From fiscal year 1999 to fiscal year 2000, dollars to the 8(a) Program went down by $500 million. Additionally, valuable resources are already being drained away from the 8(a) Program to assist the HUBZone Program. In most cases (56 offices out of 69 offices), SBA field staff who are responsible to assist 8(a) firms in their business development, are also tasked with HUBZone outreach.

The bottom line is, that the proposed regulations will harm the 8(a) Program. In fact, the SBA's own statement in the proposed regulation is that "(n)on-HUBZone concerns currently participating in the Federal marketplace will be affected economically as a result of their not being eligible to compete for contracts that are restricted to the HUBZone Program."

BusinessLINC

The Minority believes that termination of funding for this Program will affect those businesses in areas of the country that, despite a long period of economic growth, have not yet achieved parity with the rest of the nation. Those firms need the assistance provided by BusinessLINC now, more than ever, with the current economic downturn. The Administration claims that BusinessLINC is redundant but, despite repeated requests, the Administration has been unable to provide information on programs that are duplicative of the mission of BusinessLINC.

The Majority's Views and Estimates recommend that the Administration make "more of an effort to link-up existing private sector efforts with interested small businesses, particularly from low- and moderate-income areas." Although the Minority agrees with the intent of this recommendation, there is currently no vehicle within the Administration other than BusinessLINC to accomplish this "link-up." In fact, the purpose of BusinessLINC is to provide seed funding for the "private sector efforts" that the Majority recommends. Further, any such initiative that would accomplish what the Majority recommends would require funding. As BusinessLINC is already in place, which would not require the creation of a separate initiative, it is recommended that BusinessLINC receive full funding to accomplish its goals which are identical to what the Majority recommends.\

Women's Procurement Program

P.L. 106-554, signed by President Clinton on December 21, 2000, established a Women's Procurement Program. This program first required that the SBA undertake a study to determine what industries are under-represented by women-owned businesses. Concurrent with the completion of the study, the SBA was required to develop regulations under which Federal contracting officers would be allowed to restrict competition to only women-owned businesses for contracts in under-represented industries. The SBA sent the regulations to OMB for review on November 27, 2001. Under the Administrative Procedures Act, OMB has 90 days in which to review the regulations. This 90-day review period expired on February 27, 2002. The OMB has since requested an additional 30 days for review. The Minority is very concerned that this program has already taken over a year to get off the ground, and further delays by OMB are ensuring that women-owned businesses are not getting their share of the Federal market.

PRO-Net

PRO-Net is an Internet-based database of small businesses. Small businesses input their own business information into the system, and it is then accessible to potential buyers (federal agencies and large businesses). PRO-Net is also the official registry for SDB-certified firms and HUBZone-approved firms. The Minority does not concur with this request until the SBA can provide information that this $500,000 funding request allows the SBA to make necessary enhancements to PRO-Net such an interface with the Department of Defense's Central Contractor Registry.

7(j)

The Minority does not concur that the requested funding level of $3.6 million is adequate to provide the necessary management and technical assistance to businesses that are participants in the SBA's 8(a) Program. The Minority strongly believes that business development is an essential part of the 8(a) Program. As most formal business development in the Program comes from 7(j)-funded projects, the Minority is concerned that with such a minimal funding level, the SBA is forced to leverage and thereby dilute assistance to one-week executive development seminars at various colleges and universities around the country. The Minority believes that by increasing this funding, at a minimum, to the $5 million requested in FY 2001, businesses would receive more appropriate, relevant, and on-going business development training.

Office of Technology

The Office of Technology administers the Small Business Innovation Research (SBIR) Program and the Small Business Technology Transfer (STTR) Program. The SBIR and STTR programs encourage the participation of small business research and development firms in federal research efforts. Despite the success of the SBIR and STTR Programs, one of the most consistent concerns expressed in GAO reports is the concentration of awards in few states. Congress has addressed this concern with the Federal and State Technology (FAST) Partnership Program, and the Rural Outreach Program. The Minority believes these programs should be adequately funded.

Rather than the SBA's request of $3 million for the FAST Program and $500,000 for the Rural Outreach Program, the Minority recommends that $5 million be appropriated for the FAST Program, and an additional $2 million be appropriated for the Rural Outreach Program. This would fully fund the Rural Outreach Program to its authorized level, and would increase funding to the FAST Program by $2 million. The FAST Program is authorized to $10 million for fiscal years 2001 through 2005. Not providing adequate funding for the Rural Outreach Program and the FAST Program does not give these programs a chance to succeed and address the concerns that the development of these two programs were designed to solve.

ENTREPRENEURIAL DEVELOPMENT PROGRAMS

Service Core of Retired Executives (SCORE)

Although the President's FY2002 budget requested an increase of $250,000 for the SCORE Program, this amount was still far below the $6 million FY2002 authorized level. For FY2003, the President's request falls, yet again, short of the authorized level by $1 million. Funding for the program remained static at $3.5 million for the years FY1996-FY2000. In SCORE's 2000 Annual Report, the total expenditure for the program was $4.3 million in FY2000; $800,000 above the appropriated level of $3.5 million. For FY2001, the program received an increase of only $250,000 even though President Clinton requested full funding at its authorized level to assist with outstanding operational costs incurred during prior-years. As a result, the program began 2001 fiscal year at a funding level of only $2.9 million.

Due that the budget increase requested for FY2002 was insufficient to address the program's growing debt, Congress increased funding by $1 million above the President's request but still well below the authorized level. Full funding is important for the program to successfully keep its commitments to small business, especially women- and minority-owned businesses. The program has had difficulty meeting its goal of increasing the number of women and minority clients. To resolve this, the program needs to develop a more culturally-friendly atmosphere and recruit counselors who are representative of these populations. The economic well-being of women and minorities is inextricably linked to their involvement in the business world, which makes the entrepreneurial development assistance provided by the SCORE Program that much more important.

Women-owned businesses represent a quarter of all businesses and generate over $800 billion in revenues. Another 17% of businesses are owned equally by men and women and generate an additional $940 billion in revenues. Between 1992–1997, the number of women-owned businesses more than doubled compared to all businesses, revenues increased 25% more than the increase among all businesses, and employment more than tripled compared with all businesses. Just as women are playing an important role in the business world, minority-owned businesses are becoming a fast-growing segment of the economy, more than doubling their share of businesses and increasing at rates between three and seven times those of nonminority-owned businesses. The Milken Institute points out that "minority communities represent the most potent potential market in the American economy."

Business Information Centers (BICs)

For FY2001, President Clinton requested a 40% increase in funding, but only received $500,000. The increase was requested for the purpose of establishing 8 new centers. However, during the 2001 fiscal year, SBA still opened 10 new centers. In addition, SBA opened 4 new centers during FY2002 with level funding from the previous year, further stretching the program's operational budget and jeopardizing its success. Therefore, the program is in need of an increase in funding for FY2003 to help sustain its growth without jeopardizing the program's strength.

In spite of this, the President has requested a 5% cut in FY2003 program funding, while at the same time proposing to increase, yet again, the number of centers by a maximum of 6.5%. Thus, the 5% cut will actually be higher overall when combining the 5 additional new centers planned for FY2003 with the 14 new centers opened during the two previous years. Cutting the program's resources while increasing the demand on those resources could put the program in jeopardy. It is unfair to expect positive results from the program if the agency cuts funding while at the same time expands the number of centers. These actions hamper the efforts of Business information Centers to provide quality one-stop sources for information, education and training for small businesses.

With the latest in high-technology hardware, software, and telecommunications, these centers allow small businesses access to market research databases, use of planning and spreadsheet software, and vast libraries of information to help them start or build their businesses. These centers enhance the Agency's ability to increase small business productivity and competitiveness and is just one more tool in SBA's technology toolbox that will help keep the engine of the US economy running.

One Stop Capital Shops (OSCS)

For FY2003, President Bush has failed to request funding claiming that appropriators mandated the termination of the program by not providing FY2002 funding. However, no where in the FY2002 CJS Conference Report did appropriators instruct the agency to close the program. The One Stop Capital Shop Program is important because unlike other SBA programs, it is a partnership between the federal government and the local community, which provides financial support and additional resources from private sector donations. The program is designed to offer local small business assistance from an easy-to-access, retail location, all under one roof.

Each OSCS has a Business Information Center that offer libraries, computer and software resources, Internet access, and a range of financial products. In addition, the OSCS offers counseling and training services from local SBDC and SCORE counselors. In FY2000, the program served almost 80,000 clients and over 90,000 in FY2001. Abruptly terminating SBA's involvement in the program will be detrimental to local communities who have made commitments to participants, donors, and clients – commitments which cannot, and should not, be broken. Not only should the President keep these commitments, but the program's funding levels should be increased to support the program's original and true purpose of helping distressed inner cities and rural areas by locating a One Stop Capital Shop in each of the Empowerment Zone and Enterprise Communities designated areas.

As part of President Clinton's EZ/EC Initiative, the program leaves the decision-making to local communities and was designed specifically for communities that proactively involve their residents, business owners, and other critical stakeholders, to invest in the community through the pooling of financial and other resources. Local governments are encouraged to co-locate their services, including tax, permits and licensing assistance. Non-profit organizations offer some of the most diverse small business assistance and are also encouraged to co-locate their services. Finally, lenders are essential in creating a full-service center and are welcome to participate. SBA's involvement is an integral part in encouraging these groups to donate their services for underserved communities.

Americans with Disabilities Act Compliance Assistance

For FY2002, the President requested $5 million for a new program providing technical assistance for small businesses who have limited resources to comply with requirements mandated by the Americans with Disability Act. The program would help small businesses serve customers and hire employees with disabilities. The funding was also intended to help SBA increase its ADA awareness and promote the use of the Disabled Access Credit, which provides a 50% tax credit for annual eligible expenses up to $5,000, to help small businesses make their facilities ADA compliant.

While we did acknowledge the President's efforts to provide ADA-compliance assistance for small business, there was no confirming evidence at the time of the need for this type of assistance. The ADA does create extensive challenges for small business, but because of the President's extensive budget cuts to small business programs, we felt the President should concentrate on providing full funding for existing SBA programs, instead of creating new ones. Congress subsequently agreed with the Committee and refused to fund the President's new initiative in FY2002. As a result, the President is requesting no funding for FY2003.

Paul Coverdell Drug-Free Workplace Program

For FY2002, the President requested the authorized level of $5 million. This was $1.5 million more than appropriated for FY2001 and given the budgetary constraints the President placed on the FY2002 SBA budget, the Committee felt a more reasonable funding level for an unproven program would be along FY2001 funding levels. Thus, Congress provided $3 million for FY2002. For FY2003, President Bush is requesting $3 million instead of $5 million. Again, in light of the budget cuts through program elimination (i.e. One Stop Capital Shops) and reductions in assistance (i.e. 7a loans), the President should better utilize funding for more proven, long established programs.

Over its 4-year life, the program has awarded grants in only two different years and the dollar amounts have been inconsistent, ranging from $90,000 to over $600,000. SBA's most recent report to Congress gave no indication of the program's success in reducing the incidence of drug use in the workplace – even after four years. In fact, the report states that despite the substantially reduced cost provided by the assistance, drug-free workplace program are difficult to promote to small businesses for a variety of reasons. Therefore, all funding for the program should be temporarily held until the Committee's oversight can better determine its success.

Tribal Business Information Centers

For FY2001, President Clinton requested $3 million to establish a reservation-based Native American Small Business Development Center Network providing business development assistance, counseling, training and other services to Native Americans. The President also requested $1.5 million to fund existing TBICs and upgrade their technology infrastructure. These funds were not provided by appropriators and as a result, SBA was forced to use minimal funding which provided only basic assistance through the TBICs.

For 2002, President Bush requested no funds for the Office of Native American Affairs nor for the TBICs. Once again, SBA was forced to use limited funds from the general budget to provide only basic assistance. SBA has indicated that the TBICs have not been a great success and will make efforts to improve available assistance through a new program called the Native American Economic Development Program. For 2003, the agency will no longer fund TBICs and the President has requested $1 million for the new program.

Currently there are a total of 16 TBICs – two less than 2001 and three less than 2000 – located in six states: California, Minnesota, Montana, North Carolina, North Dakota, and South Dakota. There are no centers in the Southwest or Northeast. Almost half of the centers are located within one state – Montana. Due to the limited regional locations, the programs has only serviced about 5,400 clients from a populations of over 2 million Native Americans in 550 federally recognized tribes.

We commend the agency for addressing the lack of success through the TBICs, while at the same time not abandon Native American outreach and develop a new program. By beginning afresh with proper outreach and development, the Native American community will be assured of a program that provides top-notch, quality entrepreneurial development services. However, in order to produce positive results during the start-up phase of a new program, the agency will need at least $5 million, $4 million more than requested. By requesting only $1 million, the new program may lack the necessary funding to assure proper development and execution and may avail the new program to the same fate as the TBICs.

The Committee reported a measure (H.R.2538) to address the lack of quality entrepreneurial assistance for Native Americans. H.R.2538 was subsequently passed by the House and sent to the Senate. We hope that SBA will work with the Committee on incorporating some of the provisions within H.R.2538 in order to ensure the new program will encourage entrepreneurial development on Native American lands and thus increase Native American-owned small businesses.

Small Business Development Centers

The Small Business Development Center Network is the SBA's largest management and technical assistance program. SBDCs serve more clients than all other SBA programs, credit and non-credit, combined. In FY 2001 the SBDC program provided counseling and training assistance to almost 610,000 clients. These figures represent a 4.6% increase over FY 2000. In light of the nation's current economic conditions, Committee Democrats believe it is vitally important that Congress focus on what federal resources will be directed to assist and support the small business sector of the economy.

Application of the population-based funding formula using the recent Census data resulted in a decrease in SBDC funding in 24 states. These states did see an increase in population, therefore, the SBDCs in these States still have a solid client base, however, because State population growth was not consistent with the national average, the SBDCs in these states will loose some funding. Committee Democrats encourage full funding for the SBDC program so that SBDCs will not be forced to limit services in any state. The President's budget request for the SBDC program is $37 million below the authorized level of $125 million.

In addition to not fully funding the SBDC program, the Administration is pushing disclosure of client information from SBDCs through its budget documents. The President's budget specifically notes that SBDCs have been "reluctant" to provide information to SBA. It further asserts that this data is necessary to monitor the impact of SBA resources and hold program managers accountable for results. Committee Democrats question the basis for and reasoning behind this high profile criticism of the SBDC program.

It is critical to the continued success of the SBDC program that SBDC clients do not have the perception that their confidentiality may be violated. Failure to respect confidential business information can have serious consequences on potential business ventures such as awarding contracts, selling a business, getting a loan. Congress has been clear that names and addresses of SBDC clients should be kept confidential. Recently the Committee heard testimony that SBA's Office of Entrepreneurial Development recently acknowledged that it can achieve its informational objectives without having clients' names, addresses and phone numbers in a centralized database. Committee Democrats will be working to ensure that SBA honors this agreement.

The President's budget also lists the program assessment of SBDCs as "unknown." Committee Democrats view this as a misleading statement. Studies of SBDC clients indicate that firms who have received SBDC counseling tend to have a greater survivability rate than the general small business population. The latest study indicated that 54% of SBDC pre-venture clients actually started new businesses during 1998 or 1999. Small businesses create 75% of new jobs for this country and SBDCs clearly assist with the start up and sustenance of these businesses.

Women's Business Centers

Committee Democrats believe that current demographics show that the women's business center program has a clear diversity problem - 44% of clients at intake are white (non hispanic) and over 50% of these clients have a household income of $30,000 or greater (21.9% with income over $50,000). Hispanic clients are about 15%. This is especially concerning when you look at the fact that Hispanic women businesses are the fastest growing women-business sector. A preliminary review indicates that the vast majority of centers are not minority operated. The budget request for the women's business centers is $2.5 million below the authorized level. This authorization was considered critical to support 45 existing centers, an average of 12 re-competing centers and an average of 12 new centers per year as provided for in PL 106-165.

Committee Democrats understand that full funding of the women's business center program is necessary to provide business training and counseling, technical assistance and mentoring for economically and socially disadvantaged women as required by PL 106-165. If the program is not fully funded at its authorized level, it creates problems regarding competition for funding between new and existing centers. Existing centers that re-compete are being put into competition with underserved areas that want to receive new centers. To prevent this, additional funds will be necessary not only to keep active centers running, but to create new ones in undeserved areas.

As welfare reform becomes a larger issue, Committee Democrats expect WBCs to play an important role in welfare to work. The welfare to work program is intended to assist "hard-to-serve" welfare recipients with the transition to work. The Department of Labor was forced to expand eligibility requirements for its welfare to work programs in order to spend all the money. Great strides have been made in moving welfare recipients into jobs, but now creative solutions are crucial to reaching additional beneficiaries. Women's business centers can fill this need with only a small investment. While women's business centers each scramble for their share of a $12 million pie, unspent as of December 31, was $1.6 billion in Welfare-to-Work grants.

Survey of Women Business Owners
Committee Democrats recognize that with more timely, detailed data, we can better understand the characteristics of women-owned businesses and identify policies that will assist them in their pursuits. For FY2003 the President is not requesting any funding for the Survey of Women Business Owners. Committee Democrats believe that the Census Survey must be fully funded to ensure proper execution of the survey. If the survey is not funded through SBA's budget, it may not receive full funding or adequate SBA attention.

National Women's Business Council
The Council's authorization level was increased for the years 2001 through 2003, from $600,000 to $1 million, during the 2000 re-authorization process. The increased authorization was to support new and ongoing research and to produce and distribute annual reports and recommendations prepared by the Council. For 2003, the President is requesting $750,000. For three consecutive years the program has failed to receive the full funding needed to carry-out its responsibilities added by P.L.105-135. The $1 million authorization increase was specifically given to provide resources for these responsibilities. Given that women owned business continues to be the fastest-growing segment of our economy Committee Democrats assert that one of the key organizations which supports them should be funded to the full amount.

VETERANS ASSISTANCE PROGRAMS

The National Veterans Business Development Corporation
Beginning in FY2002, the funding for the Veterans Corporation is allocated on a separate line item appropriation under the Commerce/Justice/State Appropriations Bill. For FY2003, the President has requested the authorized level of $2 million. Fully funding the Corporation sustains our commitment to veteran-owned small business by providing them an important source of entrepreneurial and technical assistance. The Corporation also works with, and organizes, public and private resources and the business development staffs of each federal agency to assist Veterans. However, the Administration has yet to fill the final position on the Corporation's Board of Directors.

The Committee supports the President's budget request and believe it is in keeping with the original intent of *P.L.106-50* which created the Corporation and authorized start-up funding for the first fours years of operation with the intention it become self-sufficient by the fifth year. Although implementation of the Corporation was delayed, the Board of Directors have indicated they will not request an extension of funding after the fourth year.

The Office of Veterans Business Development
For FY2001, the President requested $1 million for the Office of Veterans Business Development and $3 million for the National Veterans Business Development Corporation. Appropriators provided the $4 million but designated the funding amount for the Corporation only. Therefore, SBA was forced to fund the Office of Veterans Business Development with minimal resources from their Salaries & Expenses Budget.

For FY2002, President Bush requested $750,000 for the Office of Veterans Business Development. However, this was considered a cut in funding because the program's FY2001 funding level was zeroed-out. Level funding the program could only have occurred if the FY2002 budget request equaled the FY2001 and FY2002 budget levels – $1.5 million. Therefore, the program has been operating at a loss. For FY2003, President Bush again requested only $750,000, thus forcing the office once again to operate with loses incurred from previous years' operational costs.

OFFICE OF ADVOCACY

For 2003, the President is requesting $5.6 million for the office and $1.1 million for Advocacy's research efforts, a decrease of $0.4 from last year's request. Committee Democrats expect that the budget strains on Advocacy's research functions could create a set back for many of Advocacy's research functions to report small business trends, characteristics, and contributions to the economy.

We concur with the Majority that the Office of Advocacy needs a stronger voice in the formation of public policy across the federal government. However, making the Office of Advocacy more independent must be done with the best interests of small business squarely in mind. Advocacy has been very effective because it has stayed true to its core mission of providing support to small businesses and entrepreneurs. Any "improvements" must be done carefully, we do not want to force Advocacy into a much greater role - which could lead to a decline in its effectiveness as an office.

WHITE HOUSE AND STATE CONFERENCES

SBA's budget request asks for $1.5M for "White House/State Conferences." Periodically, the SBA works in conjunction with Congress and the Administration to convene a White House Conference on Small Business, the last one was held in 1995. For FY 2003, SBA is proposing a series of conferences to celebrate the success of small business over the past 50 years. Committee Democrats view an assessment of the accomplishments from the last White House conference on small business is an important part of planning this conference. More importantly, in light of the fact that many of SBA's other programs are underfunded, Committee Democrats question whether this is this the most effective use of limited resources.

NATIONAL OMBUDSMAN & REGULATORY FAIRNESS BOARDS

This year the President is requesting level funding at $500,000 for the National Ombudsman. In 1996 the Small Business Regulatory Enforcement Fairness Act created the National Regulatory Fairness Ombudsman and 10 Regional Fairness Boards to provide small businesses with the opportunity to comment on enforcement activity by federal regulatory agencies. Given the relative newness of the office, the accomplishments to date have been limited. Committee Democrats believe that this office has recently stabilized and now has promise to accomplish its stated mission. As this office becomes more established, additional funds may be necessary.

BUSINESS COMPLIANCE 1-STOP PORTAL

The President's budget requests $5 million for a business compliance 1-stop portal. SBA includes this as part of their initiative to be more citizen-centered and accessible to the public. SBA hopes to develop this website as a one-stop portal to provide small businesses with information regarding laws and regulations.The site also aims to act as a gateway to federal, state and local information that affects small businesses. Committee Democrats consider the concept of a one-stop compliance website promising, and we support this request.

SALARIES AND EXPENSES

The Minority is concerned about the Administration's request of $513,490,000 for salaries and expenses (S&E). This request is an increase of $23.6 million over the appropriation for FY 2002. Included within the S&E category are employee salaries, and other operating expenses for the agency, including rents. Part of that proposal is a request for $15 million for SBA to "restructure its workforce and ensure competitive sourcing." To date, the committee has received no specifics from the agency describing how these funds will be spent. Because of this lack of information it would imprudent for these funds to be provided until greater details are furnished.

Further, it is concerning that no additional funding has been included specifically for Procurement Center Representatives. With the Chairman and the Ranking Member both pledging to focus on contract bundling which is such a significant issue to small businesses who do business with the federal government, the role of the Procurement Center Representative (PCR) is crucial. PCRs are the first line of defense against contract bundling. It is the job of PCRs to work with federal agencies to ensure that small businesses get their fair share of federal prime contracts. The proposed funding is questionable regarding hiring additional PCRs and allowing necessary additional travel dollars for PCRs. In fact, the budget proposal includes a planned evaluation of the role of PCRs and a planned cost-benefit analysis of their contributions.

The Majority's Views and Estimates recommend a reduction in the number of FTEs in the Office of Size Standards to "reduce the layering and provide more efficient and timely delivery of services." Although the Minority agrees that the SBA's program areas should operate in the most efficient and streamlined manner possible, the Minority strongly opposes FTE reductions in the Office of Size Standards. Simply cutting personnel slots does not create a more efficient process, nor does it promote more timely service. In fact, cutting the already minimally staffed Office of Size Standards any further, will no doubt result in inefficiencies and delayed delivery of services.

CONCLUSION

While representing an improvement over last year's budget that cut the Agency in half and imposed fees on many of the programs, the overall budget still falls short in several critical areas. The failure of the Administration to fund any of the "New Markets" programs including PRIME, BusinessLinc, NMVC, and One Stop Capital Shops – all programs that target assistance to low income and minority communities is very disturbing. These programs could play a major role in assisting many sectors of the community, especially as the economy continues into a recession. In addition, the Administration's failure to accurately report a subsidy rate will result in a program level half it's current size. This will deprive entrepreneurs of millions of dollars in lending that could be used to create jobs and lift this country out of the recession. It is the hope of the Democratic members of the committee that the President will reconsider his budget request, which skimps on the very resources he said were necessary to help small companies. We need to stand by American enterprise now, but this budget instead steps away.

Sincerely,

Nydia M. Velázquez
Ranking Democratic Member
House Committee on Small Business